

BEFORE THE
PRESIDENT'S COMMISSION
ON THE UNITED STATES POSTAL SERVICE

CONCLUDING STATEMENT OF
THE AMERICAN POSTAL WORKERS UNION, AFL-CIO

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This Commission has undertaken a Herculean task in seeking to know and understand the Postal Service on the basis of seven months of written submissions, testimony and consultations. Individually and collectively, you are to be congratulated as you near the completion of this difficult work. We appreciate the courtesy extended to the American Postal Workers Union by the Commission and its staff as it received written and oral testimony and letters from the APWU, and made time for individual telephone discussions and personal meetings with APWU representatives.

We have very strongly held views on many of the issues before the Commission and offer the following concluding statements with an awareness that the issues you are considering are important to the Postal Service, to businesses large and small, to the employees of the Postal Service, and to the American people.

The Commission is Playing with a Stacked Deck

The work of this Commission has been based on the false premise that the United States Postal Service must be preserved for the good of the mailing industry. In his remarks to the Commission on January 8, 2003, Treasury Undersecretary Peter R. Fisher stated:

The Postal Service is the linchpin of our \$900 billion mailing industry. As a whole, this industry represents eight percent of our Gross Domestic Product and nine million workers. The American people and American businesses rely on the Postal Service to deliver mail in a secure, reliable and efficient manner. It is vital to have a vibrant Postal Service that delivers on its mission.

From the beginning, the Commission has virtually ignored the passing reference made by Undersecretary Fisher regarding “the American people,” and concentrated instead on the interests of business. By our count, the Commission has received oral testimony from at least 25 representatives of business, and from only three witnesses even arguably speaking for private citizens interested in postal services. The Commission has, in effect, been playing with a stacked

deck.¹

Conspicuously missing from the Commission's hearings was any representative of The Center for the Study of Responsive Law. More than 20 years ago, the Center published its own study of the Postal Service expressing the concern that the interests of American consumers in universal low-cost mail service were being subordinated to the interests of business mailers. That 1983 study ("The Postal Precipice, Can the U.S. Postal Service be Saved?") expressed the fear that the Postal Service "will continue to move further away from the universal mail system that has served all areas of this nation for more than 200 years, and closer to a system which provides mail service only to those who can afford it most."² That question is even more urgent today.

It is also telling that the Office of the Consumer Advocate for the Postal Rate Commission provided no testimony to this Commission. We comment below on changes that are needed in that office; but any consumer advocate would likely have provided at least a consumer perspective as a counterpoint to the advocacy by businesses seeking to expand their reach or increase their profits. It is obvious that the Commission had no interest in a balance of testimony.

The Facts do not Justify Calls for Major Change

The Commission also began its work with the erroneous assumption that the Postal Service needs to be fundamentally changed. Deputy Undersecretary Fisher gave the Commission this direction:

¹ Two of the three "consumer" witnesses seemed most concerned about the Postal Service competing too broadly with other businesses. Consumer Action limited its testimony to a lengthy complaint about the Postal Service offering non-traditional services or products. This testimony might be significantly in the interests of USPS competitors, but it has little to do with the overall success of the Postal Service. Such complaints are more about the fleas on the dog than about the health of the dog. Likewise, the three-page testimony of the "60-Plus Association" made four points, the first two of which were that USPS should not compete with other companies.

² The study, which was published by the Center for Study of Responsive Law, was supported by a grant from the Carnegie Corporation of New York.

New technology, declining volume, and continued expansion of the delivery cost base, combined with competition from the private sector, pose a fundamental challenge to the Postal Service. You need to help us identify a new business model that will create the Postal Service for the 21st Century.

Thus directed, the Commission began by assuming the need for major change in the Postal Service. But the available data are far from conclusive about the need for any major change in the Postal Service. As matters now stand, the Postal Service will have a surplus of approximately \$1.5 billion dollars in this fiscal year -- \$4.5 billion counting the savings from past excess contributions to the Civil Service Retirement Fund. The last rate increase was in 2002, and the next rate increase is not likely to take effect until 2006. This is an admirable record of price stability not matched by the Postal Service's competitors. Furthermore, postage rates compare very favorably to rates in other countries and to rates charged by Postal Service competitors UPS and FedEx. And this has been accomplished while the economy is still far short of recovery from the economic slump that began in early 2001.³

The American Public Values and Approves of the Postal Service as It Is

We urge the Commission to consider carefully the views of the American public, which values the Postal Service as it is. The survey conducted for the Commission by Peter D. Hart Research, provides a significant counterpoint to the extreme emphasis of the Commission's hearings on business interests. The survey showed that:

- Most Americans view the USPS favorably.
- The USPS is on a par with its competition, UPS and FedEx.
- Few Americans see any need for a major overhaul of the Postal Service.
- Postal employees receive high marks for their service.

³ At this writing, unemployment levels are at a 10-year high.

- Americans oppose privatization of the Postal Service.⁴
- Americans would rather see rates rise than have services cut.

Thus, in the critical areas of price stability and customer service, the Postal Service is doing very well.

Business Critics of the Postal Service Are Seeking to Profit From Change

Critics of the Postal Service who were solicited as witnesses are in many cases those who would profit from the changes they advocate.

An example is provided by the mailing industry itself. This giant industry has been made possible and made profitable by the success of the Postal Service. Postal rates, particularly the rates of large First Class and Standard A business mailers, have risen less rapidly than inflation over a 25-year period. The Chairman and CEO of ADVO, the largest full-service targeted direct marketing services company in the United States, testified that “ADVO is committed to doubling its business in the next five years...” (testimony at 2). This is not bad, it is good; but it does not provide any basis for criticizing, much less dismantling, the Postal Service.

A number of business interests testifying before the Commission contended that greater use of worksharing and the use of private sector businesses to perform postal services would help control costs or increase the efficiency of postal services. The record before the Commission is devoid of facts to support these contentions. The record shows that private sector companies have repeatedly failed in their attempts to perform significant aspects of postal work. These failed attempts were not subjected to analysis for confirmation of comparative costs and effectiveness. If the Commission is to be guided by the facts rather than by the self-serving advocacy of business interests, it will not endorse efforts to privatize or “commercialize” postal operations.

⁴ The survey research company found that 67 percent of respondents oppose privatization and “[a] remarkable 53% strongly oppose the proposal, which is an unusual level of intensity.” Summary of findings at 5.

Postal Revenues Must Be Increased and Protected

The Commission refused our suggestion that it schedule an entire day of hearings to consider the critical issue of rate setting. The Commission must now avoid basing its recommendations on assumptions instead of facts.

Policy makers need to address the critical issue of postal revenues. Particularly in the area of worksharing, mailers are receiving discounts too large to be justified by costs avoided.⁵ This is occurring despite the fact that the Postal Rate Commission pays lip service to the requirement that all mail within the same class of service should make the same unit contribution to fixed costs. Worksharing discounts are a departure from the requirement of uniform prices. The cost justification for the discounts and the political will to resist excessive discounts have eroded over time. The result is that discounts are now excessive. This shifts costs to individual consumers and small businesses, and deprives the Postal Service of essential revenues.

The single most important change this Commission could recommend for the preservation of the Postal Service would be the strengthening of the requirement that discounts not exceed costs avoided by the Postal Service.

Attacks on Collective Bargaining Are Wrong and Unacceptable

Although this Commission was ostensibly made necessary by the advent of electronic transfers and their theoretical future impact on postal revenues, the Commission has heard very little actual evidence of such an impact. On the other hand, the Commission has heard many opinionated attacks on collective bargaining and postal compensation. This inability to demonstrate a problem with the erosion of mail by technology does not justify these attacks on postal labor standards.

⁵ The testimony of economist Kathryn Kobe (at 9-11) shows that discounts are too great for both First Class mail and Standard A mail, with the result that the “mail receiving the discount is not contributing the same amount to the incremental costs of the Postal Service as it would if it were not receiving the discount.”

Despite the success of the Postal Service in controlling rates, business interests testifying before this Commission have criticized postal employees' wages, working conditions, fringe benefits, and collective bargaining rights. This is not the forum in which to debate the adequacy of postal wages and fringe benefits, or to discuss the details of working conditions, but the attack on collective bargaining rights requires a response.⁶ Our response is in two parts.

First, collective bargaining rights are fundamental to human dignity in the workplace. We will not permit free collective bargaining to be compromised. The postal strike of 1970 occurred because wages were inadequate and working conditions were appalling. Improvements in wages were legislated by Congress in 1970. Since then, collective bargaining has succeeded in keeping wages virtually level with inflation. Postal workers will accept no less.

Second, the present collective bargaining system works and it should not be "fixed." The Postal Service has changed enormously since 1970. We have progressed from a largely manual mail processing environment to a mechanized and now to an almost entirely automated environment. Through all these changes, collective bargaining has been essential both to protect employees from the dramatic changes wrought by automation and to gain their cooperation with those changes. Without collective bargaining, the Postal Service could not have achieved all that it has achieved since postal reorganization; and without collective bargaining the Postal Service will

⁶ Only one witness, unfortunately not an unbiased witness but one who regularly serves as a paid advocate for postal management in interest arbitrations, attempted to address postal wages in any detail. That testimony was received mostly with the resounding silence it deserved; but one economist, Professor James Medoff of Harvard University, did submit a brief response, observing that "Dr. Wachter ... has misapplied the relevant theory by choosing an arbitrary set of variables that omit certain critical ones... . Dr. Wachter's model of the labor market is misleading and incomplete."

Commissioner Levin also pointed out that Professor Wachter uses the cost to the employer as a means of comparing benefits, rather than using the value of the benefits paid to workers. Thus, Wachter's treatment of fringe benefits says nothing of the value of the compensation to the employees as compared to the value of fringe benefits paid to workers performing comparable work in the private sector. This renders Wachter's data irrelevant to the comparability standard set by the Postal Reorganization Act, which requires that postal benefits be maintained "on a

not be able to withstand the challenges of the future.

At the Commission's hearing in Chicago, which focused on workforce issues, there was a remarkable consensus among Postal Service witnesses, Union Presidents, and Neutral Arbitrators with experience in postal cases. None of these most experienced and knowledgeable parties advocated major change in postal collective bargaining procedures.

We oppose any change in the law with regard to collective bargaining for health benefits and retirement benefits. Postal employees must be provided adequate health insurance and retirement benefits. In 1970, with the Postal Reorganization Act, Congress made these benefits subject to collective bargaining, but appropriately protected the overall level of fringe benefits provided to postal employees. It is unclear whether advocates of bargaining over the level of health benefits and retirement benefits intend to take postal employees out of the Federal Employees Health Benefits Program (FEHBP) or the Federal Employees Retirement System (FERS). It is clear, however, that the intention is to cut these essential benefits for postal employees.

The FEHBP is a model health benefits program. Benefits in the program are appropriately designed to control costs, and strong competition among carriers in the FEHBP ensures a generally high level of efficiency. There is no evidence that any other system of health insurance delivery would serve the Postal Service any better. Likewise, FERS is the product of exhaustive congressional consideration of how best to provide adequate retirement benefits in coordination with social security. Thus, criticisms of the present system of providing those benefits are merely thinly veiled efforts to cut postal costs at the expense of employees. Such cuts would be unacceptable. It would be terrible public policy to attempt to save postal costs at the expense of substandard health insurance or retirement benefits.

standard of comparability to the...benefits paid for comparable levels of work in the private sector of the economy.” (Emphasis added here.) 39 U.S.C. Section 1003(a).

Four Changes That Would Benefit the Postal Service, Mailers, and Consumers

1. Regular Rate Setting

The present system of setting rates is too cumbersome and time-consuming, with the result that rate increases are infrequent and larger than they would be if they were more frequent. Just as postal competitors increase their prices regularly and predictably, the postal rate-setting mechanism needs to be fixed so the Postal Service will have the flexibility to adjust its prices annually, subject to review. One of the benefits of that strengthening would be the prompt implementation of needed rate increases.⁷

2. The Postal Service Should Be Permitted to Earn Profits

This is largely an issue of terminology. Under present law, the Postal Service has ample authority to seek rates that would retire existing debt and provide for adequate capital investment. Pressure from the Postal Rate Commission, generated by mailers seeking to keep rates down, has created the impression that the Postal Service cannot set rates sufficient to return a “profit” that could be reinvested in the business to provide for future needs. This Commission should recommend that the authority of the Postal Service to accrue surplus funds for capital investment be clarified. This is not to say, however, that the revenue requirement standard should be abandoned altogether. Experience with the present rate-setting system has demonstrated that the revenue requirement floor must be set under rates or mailers will seek to drive rates too low to support the Service. In this, the Postal Rate Commission as it is presently constituted has been a willing accomplice of the industry.

3. The Board of Governors Should Be Strengthened.

In keeping with the many recommendations that the Postal Service be run in a more

⁷ As former USPS Chief Financial Officer Michael Riley pointed out in his testimony, the Board of Governors has too often been its own worst enemy, delaying needed and approved rate increases at great cost to the Postal Service.

businesslike manner, we support recommendations that the postal Board of Governors be made more like a corporate board of directors. The Board should be given broad powers, for example, to set postal rates, determine the best business strategy for the Postal Service, and determine the compensation of postal managers. Board members should be required to possess the requisite training and experience to assume these responsibilities.

We do not favor radical modification of the Postal Rate Commission or the creation of a Postal Regulatory Commission with broad powers. The record of the present Postal Rate Commission does not support the contention that a stronger PRC would more effectively contribute to sound postal policy. The PRC has shown itself to be too subject to pressure from large mailers; it has set excessive discounts for large mailers; and Postal Service reserves have been set too low to protect the Postal Service in times of adversity. It would be a move in the wrong direction to give the PRC authority to set service standards. This would weaken the Board of Governors and deprive the Postal Service of flexibility it needs to operate in a businesslike manner.

4. Consumers Need a Real Consumer Advocate

A former Director of the Office of the Consumer Advocate at the Postal Rate Commission, Ted Gerarden, had this to say about the OCA: “The OCA is subject to various limitations. It has no clear or consistent mandate on how it should represent the public interest, no express authority to conduct investigations or file complaints, no access to subpoena power, no independent resources, and no authority to appeal adverse USPS decisions. Nor is the OCA a permanent office; the Commission could dissolve the office and return to its earlier practice of appointing staff on an *ad hoc* basis....”⁸

The absence of the OCA at this Commission’s proceedings is itself strong testimony about

⁸ “A New Paradigm for Representing the Public Interest,” Ted Gerarden.

he inadequacies of that office. This Commission has not heard nearly enough from the American Public or from groups representing consumers. In this, the Commission has mirrored a major inadequacy of the present rate-setting system; it does not adequately consider or protect the interests of consumers. One important service this Commission could provide would be to recommend that an independent and effective OCA be established.

Conclusion

The Commission has heard much from representatives of businesses seeking to minimize their mailing costs or seeking to profit by dismantling the Postal Service. These businesses do not speak on behalf of American consumers who value and approve of the Postal Service as it is. Calls for major changes in the Postal Service are not justified. Attacks on postal workers' compensation and collective bargaining rights are wrong and unacceptable. The best way to protect the Postal Service, and to preserve services and uniform rates for individuals and small businesses, is to protect postal revenues by eliminating discounts that exceed costs avoided.

We recommend that the Board of Governors be strengthened and given more flexibility to set rates, that rates be increased more frequently, and that the authority of the Postal Service to accumulate surpluses for future investment be clarified. A strong independent Office of Consumer Advocate should be established.